

## Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-03 INR-11 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 PA-04 USIA-15 PRS-01 DRC-01 FEAE-00 AGR-20

SEC-03 /197 W

----- 038691

R 231717Z AUG 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3318

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 10906

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING AUGUST 23

BEGIN SUMMARY: STERLING CONTINUED ITS DOWNWARD SLIDE  
AGAINST THE DOLLAR CLOSING AT \$2.3140 ON THURSDAY (AUGUST  
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22), A FALL OF 305 POINTS ON LAST THURSDAY'S CLOSE. THE

POUND'S EFFECTIVE DEVALUATION WIDENED TO 18.2 PERCENT ON THURSDAY, COMPARED TO 17.6 PERCENT A WEEK AGO. GOLD CLOSED ON THURSDAY AT \$154.50, UP \$1.50 ON A WEEK AGO. RETAIL PRICES ROSE 0.9 PERCENT IN JULY, AND NOW STAND 17.1 PERCENT ABOVE A YEAR AGO. BASIC WEEKLY WAGE RATES IN JULY WERE 18.1 PERCENT ABOVE A YEAR AGO, WHILE AVERAGE EARNINGS IN JUNE WERE 15.8 PERCENT ABOVE A YEAR AGO. UNEMPLOYMENT IS RISING AND REACHED 606,000 OR 2.7 PERCENT (S.A.) IN THE PERIOD TO MID-AUGUST. BOTH M1 AND M3 ROSE APPRECIABLY DURING THE FOUR WEEKS TO JULY 17, AFTER SOME MONTHS OF VIRTUALLY NO CHANGE. THE STOCK MARKET IN LONDON FELL TO ITS LOWEST LEVEL SINCE OCTOBER 1958 ON MONDAY (AUGUST 19), BUT BEGAN TO RECOVER OVER THE COURSE OF THE WEEK. THE BANK OF ENGLAND IS ASKING BANKS TO PROVIDE MORE DETAILED INFORMATION FROM THE END OF SEPTEMBER AS PART OF A PROGRAM FOR TIGHTENING UP SUPERVISION.

1. STERLING CONTINUED TO WEAKEN THIS WEEK CLOSING AT \$2.3140 ON THURSDAY (AUGUST 22) AS THE DOLLAR STRENGTHENED DEMAND FOR STERLING TO MEET OIL PAYMENTS HAS SLACKENED AND THE GENERAL OUTLOOK FOR THE BRITISH ECONOMY HAS DONE NOTHING TO ENCOURAGE PEOPLE TO BUY STERLING. TRADING HAS BEEN VERY QUIET AND THE MARKETS QUITE THIN. THE EFFECTIVE DEVALUATION OF THE POUND AGAINST SMITHSONIAN RATES WIDENED TO 18.2 PERCENT. HOWEVER, THE STERLING GUARANTEES DO NOT COME INTO EFFECT UNTIL THE AVERAGE REPEAT AVERAGE DEVALUATION IS OVER 18.35 PERCENT FOR THE PERIOD APRIL 1, 1974 TO THE END OF THE YEAR. GOLD REACHED \$156.50 ON TUESDAY (AUGUST 20) BUT FELL BACK TO CLOSE AT \$154.50 ON THURSDAY.

2. THE OFFICIAL INDEX OF RETAIL PRICES HAS RISEN BY 17.1 PERCENT OVER THE PAST YEAR. FOR JULY, THE INDEX STOOD AT \$210.4 (JANUARY 1962=100) OR 109.7 (JANUARY 1974=100). THE RISE IN THE INDEX BROUGHT INTO FORCE YET ANOTHER THRESHOLD PAYMENT OF 40 PENCE A WEEK BRINGING THE TOTAL PAYABLE UNDER THE AGREEMENTS TO 2 POUNDS 80 PENCE A WEEK PER WORKER.

3. THE RISE IN WAGE RATES REACHED RECORD LEVELS IN JULY, DUE TO THE IMPACT OF THRESHOLD AGREEMENTS. WHILE BASIC UNCLASSIFIED

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WAGE RATES SHOWED A RISE OF 18.1 PERCENT COMPARED TO AN INCREASE OF 17.1 PERCENT IN RETAIL PRICES, THEY ARE NOT REALLY KEEPING UP IN TERMS OF ACTUAL EARNINGS WHEN TAXES AND OTHER DEDUCTIONS ARE MADE. THRESHOLD PAYMENTS ACCOUNTED FOR THREE-QUARTERS OF THE JULY INCREASE. THE INDEX OF AVERAGE EARNINGS ROSE TO 175.9 (S.A., 1970=100) AN INCREASE OF 15.8 PERCENT OVER THE PREVIOUS 12 MONTHS.

4. THE NUMBER OF PEOPLE UNEMPLOYED IN BRITAIN IN MID-AUGUST WAS 606,000 (S.A.). THE NUMBER AND PERCENTAGE OF UNEMPLOYED HAS BEEN RISING STEADILY SINCE MAY WHILE THE NUMBER OF VACANCIES HAS BEEN FALLING. WHILE THE RATE OF UNEMPLOYMENT IS RISING THERE ARE INDICATIONS THAT SOME INDUSTRIES ARE STILL FINDING IT DIFFICULT TO RECRUIT SKILLED LABOR, ESPECIALLY IN THE ENGINEERING INDUSTRY.

5. THE MONEY STOCK ROSE SHARPLY IN THE PERIOD TO MID-AUGUST WITH M3 RISING 1,050 MILLION POUNDS (S.A.) OR 3 PERCENT AND M1 UP BY 170 MILLION POUNDS OR 1-1/2 PERCENT. DURING THE LATEST THREE MONTHS M3 (S.A.) HAS RISEN 3-1/4 PERCENT WHILE M1 HAS BEEN VIRTUALLY UNCHANGED. THE LARGE RISE IN M3 WAS DUE TO: (1) AN UNUSUALLY LARGE CENTRAL GOVERNMENT DEFICIT WITH ONLY SMALL PURCHASES OF

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SIL-01 PA-04 USIA-15 PRS-01 DRC-01 FEAE-00 AGR-20

SEC-03 /197 W

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R 231717Z AUG 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3319

INFO AMEMBASSY BERN

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GILT-EDGED STOCK BY THE PUBLIC; (2) A LARGE INCREASE OF UK RESIDENTS' FOREIGN CURRENCY DEPOSITS IN ANTICIPATION OF LARGE PAYMENTS TO BE PAID FOR OIL; AND (3) INCREASED LENDING TO THE PRIVATE SECTOR.

6. THE FT 30-SHARE INDEX FELL BELOW THE 200 LEVEL ON MON-  
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DAY, AUGUST 19 FOR THE FIRST TIME SINCE OCTOBER 3, 1958. MOREOVER, THE LOSS OF 37.5 POINTS OVER THE PRIOR 6 TRADING DAYS WAS ONE OF THE WORST PERCENTAGE FALLS - 15.8 PERCENT - RECORDED FOR SUCH A PERIOD. FACTORS CONTRIBUTING TO THE STEADY FALL INCLUDE UNCERTAINTY ABOUT PROSPECTS FOR THE ECONOMY, COMPANY PROFITABILITY, INDUSTRIAL RELATIONS AND CORPORATE LIQUIDITY. NEVERTHELESS, THE MARKET DID RALLY ON TUESDAY, AUGUST 20, WITH THE INDEX JUMPING BY 12.1 POINTS TO 211.9 AND CLOSED ON THURSDAY AT 212.6.

7. ON TUESDAY, AUGUST 20, THE BANK OF ENGLAND ANNOUNCED THAT ABOUT 100 BANKS WILL BE REQUIRED TO PROVIDE MORE DETAILED INFORMATION TO THE BANK ENABLING THE AUTHORITIES TO FORESTALL MORE EASILY TROUBLES OF THE KIND EXPERIENCED BY THE BANKING SYSTEM IN RECENT MONTHS. THE SUPPLEMENTARY RETURNS WILL COVER AMONG OTHER THINGS THE MATURITY PATTERN OF STERLING DEPOSITS AND CLAIMS, TRANSACTIONS WITH ASSOCIATED COMPANIES, AND STANDBY FACILITIES AVAILABLE TO BACK UP BANKS' EXISTING CAPITAL AND RESERVES. BRANCHES OF FOREIGN BANKS WILL BE EXEMPT FROM THE NEW REPORTING REQUIREMENTS AS WILL THE CLEARING BANKS. SUBSIDIARIES WILL BE INCLUDED.

8. FORWARD DISCOUNTS ON STERLING GENERALLY NARROWED AT ONE MONTH, BUT WIDENED AT THREE AND SIX MONTHS OVER THE WEEK.

	8/15	8/22	CHANGE
1 MONTH	0.39	0.35	DOWN 0.04
3 MONTHS	1.40-1/2	1.68	UP 0.27-1/2
6 MONTHS	3.59-1/2	4.00-1/2	UP 0.41

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES FELL UNTIL WEDNESDAY  
(AUGUST 21) BUT ROSE marginally ON THURSDAY (AUGUST 22).

	8/15	8/22	CHANGE
1 MONTH	12	11-5/8	DOWN 3/8
3 MONTHS	12-7/8	12-3/4	DOWN 1/8
6 MONTHS	13-1/8	13-1/4	UP 1/8

10. EURODOLLAR RATES MOVED IN A MIXED PATTERN OVER THE  
WEEK.

	8/15	8/22	CHANGE
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1 MONTH	12-5/8	13-1/8	UP 1/2
3 MONTHS	13-5/8	13-5/8	UNCHANGED
6 MONTHS	13-5/8	13-3/4	UP 1/8

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-3/4  
PERCENT ON FRIDAY, AUGUST 23, 1974.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** GOLD, DOLLAR, DEVALUATIONS, ECONOMIC TRENDS, CURRENCY CONTROLS, STERLING (CURRENCY)  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 23 AUG 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition History:** n/a  
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**Errors:** N/A  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
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30 JUN 2005

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**Secure:** OPEN  
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**TAGS:** ECON, UK  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005